Statement of
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House Committee on the Judiciary
Subcommittee on Courts, the Internet, and Intellectual Property

Hearing on

Holmes Group, the Federal Circuit, and the State of Patent Appeals

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EXECUTIVE SUMMARY

In 1982, due to the chaotic nature of patent law in the regional circuit courts of appeal, as well as the pernicious forum shopping that plagued the patent area, Congress passed the Federal Courts Improvement Act. That Act created the United States Court of Appeals for the Federal Circuit. The Federal Circuit was intended to be a unified court of patent appeals, which would also hear cases in a number of other subject areas. Congress foresaw that a unified patent appeals court could develop a coherent body of patent law to stimulate innovation in the United States in the wake of the economic downturn of the late 1970s. The Act has been a huge legislative success and the life of the Federal Circuit has coincided with the greatest period of technological innovation in human history.

In Holmes Group v. Vornado, 122 S.Ct. 1889 (2002) ("Holmes Group"), the Supreme Court voided the established interpretation of the Federal Courts Improvement Act. Specifically, the Supreme Court limited the appellate jurisdiction of the Federal Circuit to cases in which the patent infringement claim is first asserted in the complaint. Thus, a case in which the patent claim first appears in the counterclaim is no longer appealed to the Federal Circuit. Justice Scalia based the Court's ruling, not on the Congressional intent behind the relevant statutes, and not on any policy justification, but on a very literalistic parsing of the involved statutes.

Holmes Group creates two distinct problems. First, regional circuits have now begun hearing patent infringement disputes, albeit on an irregular basis, after 20+ years of not having decided patent cases at all. Which appeals court hears a particular patent appeal now depends on which particular pleading happens to contain the patent claim. Second, based on Holmes Group, state courts now are exercising jurisdiction over patent and copyright claims, even though such claims have been treated as within the exclusive jurisdiction of the federal courts for decades if not centuries.

To address this problem, the Federal Circuit Bar Association proposes an amendment to 28 U.S.C. Section 1338(a) that simply adds the phrase "involving any claim for relief," as follows:

> The district courts shall have original jurisdiction of any civil action **involving any claim for relief** arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

Because the Federal Circuit's jurisdiction over patent infringement appeals is simply derivative of the district court's patent jurisdiction defined in the first sentence of Section 1338(a), this solution will ensure exclusive jurisdiction for the Federal Circuit over all patent appeals. In addition, this proposal will also ensure exclusive federal jurisdiction over all patent and copyright claims. Numerous organizations support this legislative response to Holmes Group.

STATEMENT OF EDWARD R. REINES

Mr. Chairman, Ranking Member Berman, and Members of the Subcommittee:

In Holmes Group v. Vornado Air Circulation Sys., Inc., 122 S.Ct. 1889 (2002) ("Holmes Group"), the Supreme Court voided the established principle that all patent infringement claims are to be appealed to the Federal Circuit. Instead, the Supreme Court limited the appellate jurisdiction of the Federal Circuit to those cases in which the claim for patent infringement was first asserted in the complaint, and not in a responsive pleading. The Court explicitly based the ruling, not on the Congressional intent behind the relevant statutes or on any policy rationale, but on a literalistic parsing of the text of the particular statutes involved.

Regional circuits have now begun hearing patent infringement disputes on a sporadic basis, with a 20-year gap in their precedent. See, e.g., Telecomm Technical Services Inc. v. Rolm Co., 388 F.3d 820 (11th Cir. 2004). Even more unsettling, Holmes Group has been construed to grant state courts jurisdiction over copyright and patent claims, even though such claims have been treated as within the exclusive jurisdiction of the federal courts for decades, if not centuries. See Green v. Hendrickson Publishers, Inc., 770 N.E. 2d 784 (Ind. 2002); Ross & Cohen LLP v. Eliattia (N.Y. Sup. Ct. 2005) (reprinted at 1/24/2005 N.Y.L.J. 18).

The Federal Circuit was unquestionably created, among other reasons, to resolve all patent appeals so as to create uniformity in the application and development of patent law. The post-Holmes Group cases make clear that the statutes governing the jurisdiction of the Federal Circuit, as interpreted, do not fulfill Congress' intent. Congress simply did not intend that the Federal Circuit would share the development of patent law with the state courts and regional federal circuit courts of appeal. Rather, Congress intended for the Federal Circuit to function as the unified court of appeals for patent claims for the many valid reasons documented in its committee reports. Thus, a problem exists because important statutes passed by Congress have been construed in a way that conflicts with the clear Congressional intent behind those very same statutes.

The Federal Circuit Bar Association, in June 2002, created a committee ("FCBA Committee") to consider the wisdom of a legislative response to Holmes Group. The FCBA Committee, comprised of Don Dunner, Professor Mark Lemley, Molly Mosley-Goren, Joseph Re, Steve Carlson, and myself, included leading lights in academia and experienced members of the bar.[1] After extensive deliberation and analysis, and the consideration of multiple alternatives, the FCBA Committee concluded that the proposal set forth below is the most appropriate legislative response to Holmes Group. See *Report of the Ad Hoc Committee to Study Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 12 Fed. Cir. B.J. 713, 714 (2003).[2] This proposal already enjoys the support of the Federal Circuit Bar Association ("FCBA"), the Intellectual Property Owners Association ("IPO"), and the United States Counsel for International Business ("USCIB"), among others.

The FCBA proposes a straightforward legislative solution. We recommend an amendment to 28 U.S.C. Section 1338(a) that simply adds the phrase "involving any claim for relief," as follows:

> The district courts shall have original jurisdiction of any civil action **involving any claim for relief** arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

[1] The following is a brief description of the members of the committee. Don Dunner is a partner at Finnegan, Henderson, Farabow, Garrett & Dunner L.L.P. and served as Chairman of the Advisory Committee to the Federal Circuit for the first ten years of the Court's existence and participated in the drafting of the Court's rules (1982-92). Mark Lemley is the William H. Neukom Professor of Law at Stanford Law School where he teaches intellectual property, computer and Internet law, patent law, and antitrust. Molly Mosley-Goren is of counsel at Fish & Richardson P.C., and author of *Jurisdictional Gerrymandering? Responding to Holmes Group v. Vornado Air Circulation Systems*, 36 J. Marshall L. Rev. 1 (2002). Joseph Re, Treasurer of the Federal Circuit Bar Association, is a partner at Knobbe, Martens, Olson & Bear, L.L.P. He clerked for the Honorable Howard T. Markey, Chief Judge of the U.S. Court of Appeals for the Federal Circuit. Steve Carlson is a practicing patent litigation attorney in Weil, Gotshal & Manges L.L.P.'s Silicon Valley Office. He clerked for the Honorable Paul R. Michel, Chief Judge of the U.S. Court of Appeals for the Federal Circuit. I chaired the committee.

[2] A copy of this report is submitted with this testimony.

28 U.S.C. § 1338(a) (bold text proposed). Because the Federal Circuit's jurisdiction over patent infringement appeals is derivative of the district court's patent jurisdiction defined in the first sentence of Section 1338(a), this solution will ensure exclusive jurisdiction for the Federal Circuit over all patent appeals. In addition, because Section 1338(a) also addresses federal exclusivity over patent and copyright claims, this proposal will at the same time ensure exclusive federal jurisdiction over all patent and copyright claims.

I.

THE PROBLEM

A. The Pre-Federal Circuit Patent Law Morass

Before patent appeals were centralized in the Federal Circuit in 1982, the patent law of the regional circuits was chaotic. The complexity of patent cases, both in technical and legal dimensions, exacerbated the tendency of circuits to develop conflicting bodies of law. The lack of uniformity was disadvantageous for several reasons. The disjointed state of the law created costly uncertainty for innovators, whether they sought to enforce ownership rights or faced threats of patent infringement suits. Further, the lack of uniformity created an incentive for forum shopping, which was exploited with zeal by litigants.

Scholars examining the state of patent law before the creation of the Federal Circuit routinely describe it disapprovingly. As one noted, "some circuits imposed higher standards on patentees attempting to assert the validity of their patents. Other circuits were known for being pro-patentee. Varying standards among the circuits and other factors caused uncertainty and great concern to American businesses that did not know if their patent protection would be sustained in court." See Christian A. Fox, *On Your Mark, Get Set, Go! A New Race to the Courthouse Sponsored by Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 2003 BYU L. REV. 331, 333 (2003) (citations omitted). Of course, there is the famous story of then-Second Circuit Court of Appeals Judge Thurgood Marshall's visit with senators in advance of his confirmation hearing. When asked by one senator what he thought of patents, he

reportedly replied: "I haven't given patents much thought, senator, because I'm from the Second Circuit and as you know we don't uphold patents in the Second Circuit."

These problems were not merely anecdotal. See, e.g., Manufacturing Research Corp. v. Graybar Electric Co., 679 F.2d 1355, 1361 n.11 (11th Cir. 1982) (describing the "morass of conflict" in the Eleventh Circuit, and the former Fifth Circuit, concerning the proper standard of proof needed to invalidate a patent). The uncertainty fostered by the disparate treatment of patent law in the regional circuits sparked legislative interest.

B. Congress Carefully Studied The Problems In The Patent Area Before Creating The Federal Circuit

In view of reports about problems in the patent area, Congress studied the issue extensively. After hearings and analysis, the House Report concluded that, in the patent area, "current law lacks uniformity or is inconsistently applied." See H.R. Rep. No. 312, 97th Cong. 1st Sess. (1981) ("House Report") at 20. Further, the House Report concluded that patent litigation has been "characterized by undue forum-shopping and unsettling inconsistency in adjudications." Id. Based on prior government reports, the House Report recognized that "patent law is an area in which the application of the law to the facts of a case often produces different outcomes in different courtrooms in substantially similar cases." Id. Indeed, the House Report observed that the evidence showed that "some circuits are regarded as 'pro-patent' and other 'anti-patent,' and much time and money is expended in 'shopping' for a favorable venue." Id. at 20-21. The House Report noted that "[p]erceived disparities between the circuits have led to 'mad and undignified races' between alleged infringers and patent holders to be the first to institute proceedings in the forum they consider most favorable." Id. at 21.

The House Report also concluded that the pre-1982 state of patent litigation was detrimental to the economy. For example, it noted that the lack of uniformity made it "particularly difficult for small business to make useful and knowledgeable investment decisions where patents are involved." Id. at 22. The House Report explained that addressing the problems in the patent area "will be a significant improvement from the standpoint of the

industries and businesses that rely on the patent system." Id. at 23. S. Rep. No. 275, 97th Cong., 1st Sess. (1981) ("Senate Report") at 5 ("[The Industrial Research Institute] polled its membership and found them overwhelmingly in favor of centralizing patent appeals in a single court.").

The House Report summed up its analysis by observing that "Patents have served as a stimulus to the innovative process" and that improvements in the then-problematic state of patent law "can have important positive ramifications for the nation's economy." Id. at 23.

C. The Creation Of The Federal Circuit And The Present Statutory Scheme

After the Congressional inquiry into the problems in the patent area I just summarized, Congress passed the Federal Courts Improvement Act in 1982, intending to consolidate all patent appeals in a new court, the Federal Circuit Court of Appeals. Under that Act, the Federal Circuit's jurisdiction over patent cases is governed primarily by two statutory provisions. The Federal Circuit's jurisdiction is fixed with reference to the jurisdiction of federal district courts by 28 U.S.C. Section 1295(a)(1), which provides in pertinent part:

> The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction –
>
> (1) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, **if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title**, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;

28 U.S.C. § 1295(a)(1) (emphasis supplied).

The district court jurisdictional statute to which the Federal Circuit's appellate jurisdiction is fixed is 28 U.S.C. Section 1338(a). This statute provides for the district courts' original jurisdiction over patent infringement cases:

> The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction

> shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a). Thus, in order for the Federal Circuit to have jurisdiction over an appeal, the district court's original jurisdiction must have arisen, at least in part, under an Act of Congress relating to patents.

As I noted earlier, Congress created the Federal Circuit with the goal of, among other things, promoting uniformity in patent law. Kennedy v. Wright, 851 F.2d 963, 966 (7th Cir. 1988) ("The Federal Circuit's exclusive jurisdiction under § 1295(a)(1) was created, after all, so that there could be a uniform jurisprudence of patent law."). The following are some of the statements in the legislative history that illustrate Congressional intent in this regard:

- "A single court of appeals for patent cases will promote certainty where it is lacking to a significant degree and will reduce, if not eliminate, the forum-shopping that now occurs." House Report at 22.

- "For these reasons the establishment of a single court to hear patent appeals was a major recommendation of the Domestic Policy Review initiated by President Jimmy Carter. . . ." House Report at 22.

- "[T]he Industrial Research Institute, a private, non-profit corporation with a membership of approximately 250 industrial companies that account for a major portion of the industrial research and development in the United States, polled its membership and found them overwhelmingly in favor of centralizing patent appeals in a single court." House Report at 22.

- "[T]he central purpose is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law." House Report at 23.

- "Similarly, the uniformity in the law that will result from the centralization of patent appeals in a single court will be a significant improvement from the standpoint of the industries and businesses that rely on the patent system." House Report at 23.

- "[The Industrial Research Institute] polled its membership and found them overwhelmingly in favor of centralizing patent appeals in a single court." Senate Report at 5.

Because Congress was also deeply concerned with forum shopping in the patent area, Congress did not intend to limit Federal Circuit jurisdiction to patent claims raised in the complaint. Congress expressly contemplated that counterclaims for patent infringement could influence appellate jurisdiction. The legislative history reflected an intent to have all patent appeals go to the Federal Circuit, including appeals from cases with patent counterclaims, unless the patent law counterclaim was frivolous, trivial, or manipulatively included:

> Federal District judges are encouraged to use their authority under Federal Rules of Civil Procedure, see Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the federal court of appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction.
>
> . . .
>
> If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal should not be changed by this Act but should rest with the regional court of appeals.

Senate Report at 19-20. Recognizing that "[i]mmaterial, inferential, and frivolous allegations of patent questions will not create jurisdiction in the lower court," Congress reasoned that "therefore there will be no jurisdiction over these questions in the appellate court." Senate Report at 19. Thus, Congress was fully aware that a patent law counterclaim could direct a case to the Federal Circuit on appeal. Congress nonetheless did not call for a bar on Federal Circuit jurisdiction over patent law counterclaims. Rather, Congress relied on the fact that courts would be capable of sifting out sham or unrelated patent counterclaims designed to create jurisdiction improperly in the Federal Circuit.

Consistent with the legislative history, from the creation of the Federal Circuit in 1982 until Holmes Group issued in 2002, courts have uniformly interpreted the above jurisdictional statutes to grant the Federal Circuit exclusive jurisdiction over all patent appeals, regardless of the particular pleading containing the patent claim. This principle was first

established in a series of Federal Circuit cases, including Schwarzkopf Development Corp. v. Ti-Coating, Inc., 800 F.2d 240, 244 (Fed. Cir. 1986) (stating that bona fide counterclaims for patent infringement trigger Federal Circuit jurisdiction); In re Innotron Diagnostics, 800 F.2d 1077, 1080 (Fed. Cir. 1986) (asserting jurisdiction over patent infringement claim that was consolidated into pre-existing antitrust case); and Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd., 895 F.2d 736 (Fed. Cir. 1990) (asserting jurisdiction over patent infringement counterclaim). This interpretation of the Federal Circuit's jurisdiction was shared by its sister circuits. See, e.g., Xeta, Inc. v. Atex, Inc., 825 F.2d 604 (1st Cir. 1987) (applying Schwartzkopf and Innotron to hold that "the patent counts of a counterclaim fall within the district court's jurisdiction under 28 U.S.C. § 1338.").

D. Holmes Group Decision

In Holmes Group, the Supreme Court removed the jurisdiction over appeals in cases involving patent counterclaims that the Federal Circuit had been exercising for two decades. According to the Supreme Court, whether a civil action "arises under" the patent law as provided by Section 1338(a) involves only an analysis of the complaint, not responsive pleadings. The Court reached this conclusion because of its belief that the particular language of Section 1338(a) necessarily implicates the well-pleaded complaint rule. Holmes Group, 122 S.Ct. at 1893. The well-pleaded complaint rule allows a court to only consider the complaint allegations in determining what law a civil action "arises under." Id.

E. Holmes Group Disrupted Two Fundamental Principles Of Intellectual Property Litigation

Holmes Group has unsettled two fundamental principles governing the jurisdiction of federal courts over intellectual property cases. When a patent infringement claim is present in a case, but not in the complaint, the appeal must now go to one of the eleven regional circuits, not the Federal Circuit. On an irregular basis, the regional courts of appeals have now recommenced issuing opinions in patent infringement cases. See, e.g., Telecomm Technical Services Inc. v. Rolm Co., 388 F.3d 820 (11th Cir. 2004). More such appeals are on

the way, as the Federal Circuit has transferred other cases out of its jurisdiction pursuant to Holmes Group. See, e.g., Medigene AG v. Loyola Univ., 2002 WL 1478674 (Fed. Cir. June 27, 2002) (transferring appeal to Seventh Circuit).

The second fundamental problem created by Holmes Group is the disruption of the long-standing principle that patent and copyright infringement claims are within the exclusive jurisdiction of the federal courts. See Puerto Rico Telephone Co. v. Telecommunications Regulatory Board, 189 F.3d 1, 13 (1st Cir. 1999) (recognizing that Section 1338 "confer[s] on the federal courts exclusive jurisdiction over any action arising under a federal statute 'relating to' patents and copyrights"); North Dakota v. Fredericks, 940 F.2d 333, 336 (8th Cir. 1991) ("Federal district courts have original and exclusive jurisdiction of patent-infringement cases."); Schwarzkopf Development Corp. v. Ti-Coating, Inc., 800 F.2d 240, 244 (Fed. Cir. 1986) ("Adjudication of a patent counterclaim is the exclusive province of the federal courts."); Bassett v. Mashantucket Pequot Tribe, 204 F.3d 343, 352 (2d Cir. 2000) ("[T]he Copyright Act gives federal courts exclusive jurisdiction to enforce its provisions."). Holmes Group has been interpreted to limit federal exclusivity to cases where the patent or copyright claim is asserted in a well-pleaded complaint. See Green v. Hendrickson Publishers, Inc., 770 N.E. 2d 784 (Ind. 2002); Ross & Cohen LLP v. Eliattia (N.Y. Sup. Ct. 2005) (reprinted at 1/24/2005 N.Y.L.J. 18).

In Green, the Supreme Court of Indiana explained that "until very recently the logic and language of a consistent body of federal decisions appeared to preclude a state court from entertaining a counterclaim under copyright [or patent] law." After thorough analysis, Green found this logic "trumped" by Holmes Group, and concluded that state courts may now adjudicate patent and copyright claims asserted in counterclaims and other responsive pleadings. Similarly, in Ross, the state court determined that, because a copyright infringement claim was first asserted in a counterclaim, "under the well-pleaded complaint rule, this Court [a state court] has jurisdiction to determine the counterclaim on the merits." Under Green and Ross, state

courts will have jurisdiction over patent and copyright infringement counterclaims even though federal courts have had exclusive jurisdiction over such claims since the 1800s.

The reallocation of jurisdiction stemming from Holmes Group means the Federal Circuit no longer has unified jurisdiction over patent appeals because regional circuit courts of appeal and state courts will now also decide such cases. Although some degree of comity may be given to Federal Circuit law, the regional circuits may believe they are bound by their own 20+ year old precedent. Indeed, the Telecomm court characterized Federal Circuit's precedent as merely "persuasive authority." Telecomm, 388 F.3d at 826. Thus, under Holmes Group, each circuit would have to decide whether to bind itself to Federal Circuit law, apply the old patent law it created before patent jurisdiction was removed from it in 1982, or simply create new precedents from scratch. In Telcomm, the eleventh circuit attempted to avoid this conundrum by citing no patent law precedent of any kind in deciding the complex patent law issue it faced. Telecomm, 388 F.3d at 826.

The inevitable lack of uniformity between Federal Circuit law and the regional circuit and state court precedents will create an incentive for a return to the forum shopping that the Federal Circuit was designed to eliminate. Over time, as the various regional circuits and state court systems renew adjudicating patent disputes, more doctrinal differences will be inevitable. As a consequence, wasteful forum shopping will surely resume. In short, while manageable now, this problem is bound to snowball.

Justice Stevens' concurrence in Holmes Group suggests that one justice believes that allowing conflicting patent appeals to percolate through the regional circuits (and through the state courts under Green and Ross) could be beneficial. See 122 S.Ct. at 1898 (Stevens, J., concurring). However, we believe that Congress had valid reasons for rejecting that approach and concluding that any such benefit is far outweighed by the resulting cost of doctrinal unpredictability and forum shopping. Because a substantial, but sporadic number of cases will be appealed to the regional circuits or state courts of appeals, patent law outside of the Federal

Circuit will develop in fits and starts. It is doubtful that any coherent body of non-Federal Circuit patent law will develop in the foreseeable future.

Other commentators have drawn similar conclusions about the cost of Holmes Group. For example, commentators have emphasized the danger of the resurrection of "dead letter" anti-patent precedents from particular circuits. See, e.g., Elizabeth I. Rogers, *The Phoenix Precedents: The Unexpected Rebirth of Regional Circuit Jurisdiction over Patent Appeals and the Need for a Considered Congressional Response*, 16 Harv. J.L. & Tech. 411, 462 (2003) ("In those cases in which a patentee is unlucky enough to find herself stuck in a situation in which Vornado will vest appellate review in a regional circuit whose long-dormant precedents were unfriendly to patents, certain patent rights that were previously fairly stable and predictably valued may now be rendered worthless."). Doctrinal variances between circuits may restart the forum shopping that Congress sought originally to minimize. See, e.g., Christian A. Fox, *On Your Mark, Get Set, Go! A New Race to the Courthouse Sponsored by Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 2003 BYU L. Rev. 331, 352 (2003) ("[T]he Court's decision may reintroduce inconsistencies and forum shopping in patent law cases and spark races to the courthouse between patentees and alleged patent infringers. In summary, [Holmes Group] could undercut the foundation of uniform patent law that the Federal Circuit has helped establish over the past twenty-one years, a foundation that provides vital support for the economy and businesses of the United States."). Many agree that Congress will have to act to repair the dangerous condition posed by Holmes Group. See, e.g., Scott W. Hackwelder, *An Argument for Congressional Amendment of Federal Circuit Jurisdiction in Response to Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 54 Syracuse L. Rev. 475, 498 (Warning that "adverse effects stemming from the Holmes Group decision may have to be realized before Congress again takes corrective action to address the issue of patent law uniformity."). One commentator explained the need for curative legislation in direct terms:

> The original intent of Congress in forming the Federal Circuit was to establish some continuity and consistency when settling patent

> law disputes. This decision is contrary to Congress' clear mandate to have the Federal Circuit settle patent law disputes. Now it's just a question of how long it will take for a bill to be introduced which will reestablish the Federal Circuit's jurisdiction over patent law disputes.

Joseph Etra, *Holmes v. Vornado: A Radical Change In Appellate Jurisdiction*, 5 Colum. Sci. & Tech. L. Rev. 4.

Congress should not wait until a critical mass of adverse effects materializes and the problem gets out of hand. Once inconsistent decisions begin to populate the law of the regional circuits, parties may develop vested interests in maintaining the opportunity to shop in particular forums. At that point, the reform which now has broad support will become much more difficult to achieve.

II.

THE PROPOSED SOLUTION

The Supreme Court expressly resolved Holmes Group on a technical parsing of the relevant statutes, and did not even purport to conform its holding to Congress' intent in creating the Federal Circuit. See Holmes Group, 122 S.Ct. at 1895 ("Our task here is not to determine what would further Congress' goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean."). The Supreme Court, and Justice Scalia in particular, have repeatedly emphasized that where defects in statutory language fail to give effect to Congressional intent, it is the role of Congress, not the courts, to re-draft the relevant statute. See, e.g., Hartford Underwrites Ins. Co. v. Union Planters Bank, 530 U.S. 1, 13-14 (2000) (Scalia, J.) ("It suffices that the natural reading of the text produces the result we announce. Achieving a better policy outcome – if what petitioner urges is that – is a task for Congress, not the courts.").

After extensive deliberation, the FCBA has concluded that the most appropriate legislative response to Holmes Group is to amend Section 1338(a) to read as follows:

> The district courts shall have original jurisdiction of any civil action **involving any claim for relief** arising under any Act of Congress relating to patents, plant variety protection, copyrights

> and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. § 1338(a) (bold text proposed). The FCBA believes that this surgical insertion of five words into the jurisdictional statute is the most logical and elegant solution to Holmes Group. However, the overriding concern of the FCBA is to see the Holmes Group problem fixed. The FCBA is not preoccupied with pride of authorship in a particular solution or in mere semantic differences between this proposal and others. In the course of its study, the FCBA considered many potential legislative solutions. See, e.g., *Report of the Ad Hoc Committee to Study Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 12 Fed. Cir. B.J. 713, 719-23 (2003). The FCBA selected the solution I advocate now because it offers the following advantages:

- It minimizes additions and deletions to the current statutory language and borrows existing phraseology from related statutes and rules.
- It exploits the fact that Federal Rules of Civil Procedure 8 defines "claim for relief," broadly to include "an original claim, counterclaim, cross-claim, or third party claim" and thus employs an established term with known meaning. Fed. R. Civ. P. 8.
- It exploits the fact that 28 U.S.C. § 1295(a)(1), which sets forth Federal Circuit appellate jurisdiction, uses the term "involving a claim" and thus employs an established term with known meaning.
- It ensures that federal courts shall have exclusive jurisdiction over all claims for relief arising under the patent laws.
- It ensures that the Federal Circuit will have jurisdiction over all appeals from civil actions in which either party asserted a claim for relief arising under the patent laws.

In short, inserting the phrase "involving any claim for relief" into 28 U.S.C. § 1338(a) elegantly restores both federal court exclusivity over patent and copyright cases and federal circuit jurisdiction over patent claims in one stroke. It preserves the existing language of the various statutes while adding only a single well-understood phrase, which draws meaning from Federal Rule of Civil Procedure 8 and 28 U.S.C. Section 1295(1).

Since the FCBA Committee recommended this solution in 2002, it has received widespread support. The FCBA has evaluated the comments of which it has learned. They

have generally been quite minor. The main comments are that: (1) there might be undesired, incidental procedural hitches resulting from the particular language proposed, (2) defendants may include non-*bona fide* patent counterclaims in a case so the Federal Circuit receives an appeal, and (3) a more far-reaching approach might solve more problems. The first critique has been articulated by another witness, Professor Hellman, and I start there first.

A. Professor Hellman's Critique Of The FCBA Proposal

Professor Hellman agrees that Holmes Group has created a significant problem and that a solution is warranted. He has put forward an alternative proposal based on two issues he has with the FCBA solution.

First, Professor Hellman expresses concern that amending 28 U.S.C. Section 1338(a) in the manner suggested by the FCBA could reopen the interpretation of precedents on an otherwise unrelated topic. Specifically, Professor Hellman raises an issue as to whether the FCBA proposal will cause a reconsideration of when a claim that is not a traditional patent or copyright infringement claim implicates patent or copyright issues sufficiently that it should be treated as a patent or copyright claim for purposes of jurisdiction. In Christianson v. Colt Industries, 486 U.S. 800, 808-09 (1988), the Supreme Court ruled that, for jurisdictional purposes, a non-patent claim that depends "on resolution of a substantial question of federal patent law" is effectively a patent "claim" for jurisdictional purposes Christianson, 486 U.S. at 808-09. In copyright law, copyright jurisdiction turns on whether "a complaint alleges a claim or seeks a remedy provided by the Copyright Act." Bassett v. Mashantucket Pequot Tribe, 204 F.3d 343, 355 (2d Cir. 2000).

The FCBA solution is not designed to address this issue at all. Further, there is no reason to believe the proposed addition would affect this issue. Both the statute in its current form and the proposed change require the presence of a claim for relief. The judicial interpretation on what constitutes such a claim thus should not be affected by the proposed change.

Professor Hellman's concern in this regard would apply with equal or greater force to what I understand to be his own proposal. Both his re-write of the Federal Circuit's appellate jurisdiction provision (28 U.S.C. § 1295(a)(1)), and his rewrite of the federal exclusivity provision (28 U.S.C. § 1338(a)), track the FCBA proposal and add the phrase "claim for relief." This observation is not intended as a criticism of Professor Hellman's proposal. Neither proposal raises a significant issue in this regard.

Second, Professor Hellman theorizes that that the FCBA's proposed addition of language to 28 U.S.C. Section 1338(a) may somehow render obsolete supplemental jurisdiction for certain claims by giving the district court original jurisdiction over the entire "civil action" rather than just the specific federal claims within the case. This critique has no force because 28 U.S.C. Section 1338(a) as it presently stands already gives district courts original jurisdiction over the entire civil action. The jurisdiction statute currently states: "The district courts shall have original jurisdiction of any civil action arising under. . . ." 28 U.S.C. § 1338(a) (emphasis supplied). The FCBA proposal preserves that language: "The district courts shall have original jurisdiction of any civil action **involving any claim for relief** arising under. . . ." Thus, once a civil action triggers jurisdiction under 28 U.S.C. § 1338(a) by including a patent or copyright claim, the scope of original jurisdiction remains consistent with pre-Holmes Group law.

In sum, while it is, of course, possible that unintended consequences might be generated by any amendment to Section 1338, the FCBA proposal, which is over two years old, has been thoroughly evaluated. As demonstrated by the relatively minor concerns expressed by Professor Hellman, the proposal has withstood that scrutiny remarkably well.

B. The Manipulative Use Of Patent Counterclaims

There has been some concern expressed that, if patent counterclaims create appellate jurisdiction in the Federal Circuit – as they did prior to Holmes Group, parties may manipulatively include such counterclaims in a case so that the Federal Circuit would hear an appeal it might not otherwise have jurisdiction over. At the outset, there is no evidence that this

has been a problem over the last twenty years, despite the fact that the Federal Circuit could have exercised jurisdiction over such cases before Holmes Group. In any event, this concern ignores the wealth of case management tools at the disposal of district court judges to combat any such abuses.

As explained above, when Congress created the Federal Circuit, it expected that patent counterclaims would trigger Federal Circuit appellate jurisdiction. To address potential abuse, Congress specifically encouraged district courts to use all the procedural devices at their disposal to prevent the manipulation of appellate jurisdiction through the improper addition of counterclaims or otherwise.[3] For example, if a counterclaim is frivolous or a sham, the district court can readily dismiss it and strike it from the case. If a patent counterclaim is unrelated to the claims in the complaint, the district court can readily sever or otherwise separate that counterclaim from the case so that improper manipulation does not take place.[4]

[3] Senate Report at 19-20 ("Federal District judges are **encouraged** to use their authority under Federal Rules of Civil Procedure, see Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the federal court of appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction.… If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal should not be changed by this Act but should rest with the regional court of appeals.") (emphasis supplied).

[4] Some have implied that it might be desirable to keep the *status quo* so that the antitrust issues that necessarily have patent issues embedded in them will be occasionally resolved by the federal regional circuit courts of appeal or state courts. This makes no sense for a host of reasons. First, the Federal Circuit grants fair treatment to antitrust issues. Second, if the Federal Circuit were not doing so, obviously the Supreme Court would quickly step in and remedy the situation. The Supreme Court has not shown itself to be shy when it comes to the Federal Circuit or any other court. Third, having cases only irregularly appealed to the eleven regional circuits is a poor way to develop a coherent body of precedent to compete with Federal Circuit law. Fourth, if a regional circuit did create materially different rules than the Federal Circuit, because jurisdiction would turn on which pleading contained the patent claim, unseemly races to the Court would necessarily follow. The Federal Circuit was created precisely to avoid "expensive, time-consuming and unseemly forum-shopping." House Report at 20. Fifth, patent law more broadly would suffer because there would be no solution to the Holmes Group problems identified earlier in my testimony.

C. There Is No Need For Changes To Other Aspects Of The Federal Circuit's Patent Appeal Jurisdiction

The FCBA has considered the effect of Holmes Group on a variety of procedural contexts, such as amended complaints, patent claims that are resolved pre-appeal, and consolidated actions. For the reasons below, the FCBA believes that a legislative response to Holmes Group should not specifically address these other procedural contexts.

1. Amended Complaints

The FCBA has considered whether the legislative proposal needs to contain express language to ensure that patent claims brought first in amended pleadings trigger Federal Circuit jurisdiction. The FCBA concludes that the proposed language is sufficient to give the Federal Circuit jurisdiction over appeals in cases where patent claims were interjected in amended pleadings. As proposed, 28 U.S.C. Section 1338(a) would be amended to refer to "any claim for relief" arising under patent law, which should adequately address amended pleadings. Moreover, existing law appears to hold that the Federal Circuit properly has jurisdiction over appeals where patent claims were first stated in amended pleadings.

Indeed, existing caselaw routinely confirms that, in jurisdictional disputes, the amended pleadings govern. See, e.g., Johnson v. Hussmann Corp., 805 F.2d 795 (8th Cir. 1986) (overruled on other grounds) ("Appellant's amended complaint had been artfully pleaded to avoid federal jurisdiction."); Coastal Corp. v. Texas Eastern Corp., 869 F.2d 817 (5th Cir. 1989) ("Coastal's amended complaint filed on January 31 conferred jurisdiction on the district court at least from thence forward. . . ."); Boelens v. Redman Homes, Inc., 759 F.2d 504 (5th Cir. 1985) (finding federal jurisdiction lacking, because "plaintiffs did not allege in the amended complaint or the pretrial order that the defendants' warranty, on its face, violated any of the substantive provisions of [federal law].").

Indeed, Justice Stevens recognized in his concurrence in Holmes Group that the Federal Circuit would, indeed, have jurisdiction over appeals containing an amended claim for patent infringement. See Holmes Group, 122 S.Ct. at 1896 (Stevens, J., concurring) ("Thus, if

a case began as an antitrust case, but an amendment to the complaint added a patent claim that was pending or was decided when the appeal is taken, the jurisdiction of the district court would have been based 'in part' on 28 U.S.C. § 1338(a), and therefore § 1295(a)(1) would grant the Federal Circuit jurisdiction over the appeal.").

Thus, the FCBA has concluded that under existing law, the Federal Circuit may properly exercise appellate jurisdiction over cases in which a patent claim was first asserted in an amended pleading. Accordingly, the proposed amendment does not need to specifically refer to amended pleadings.

2. Patent Claims Resolved Pre-Appeal

The FCBA has also determined that the legislative proposal need not specifically address situations in which the patent claims asserted at the district court level are no longer at issue on appeal. Because no patent claims are left in such cases, the uniformity of patent law is not implicated by where such appeals are adjudicated. Furthermore, the general rule under existing law is to fix appellate jurisdiction at the outset of a case so that the parties and the trial court know the governing law for purposes of resolving motions, writing jury instructions, and generally applying the law in the district court. Whether a patent claim is resolved pre-appeal generally has no impact on appellate jurisdiction, assuming it was *bona fide*. See Kennedy v. Wright, 851 F.2d 963 (7th Cir. 1988) (Easterbrook, J.) (rejecting notion that Federal Circuit jurisdiction should reflect the issues actually litigated in a case, and transferring appeal from contract-based "patent ownership" phase of bifurcated patent suit to the Federal Circuit); Abbott Labs. v. Brennan, 952 F.2d 1346 (Fed. Cir. 1991) ("The path of this appeal was established with the filing of the civil action to obtain a patent in accordance with 35 U.S.C. § 146 and although the § 146 issue was not appealed, this appeal of the other issues was correctly taken to the Federal Circuit.").

A limited exception to this rule is for voluntary dismissals of patent claims. Where a plaintiff voluntarily dismisses its patent claims, the courts have found jurisdiction to lie

in the regional circuits. In Gronholz v. Sears, Roebuck and Co., 836 F.2d 515 (Fed. Cir. 1987), after plaintiff filed a two-count complaint for patent infringement and for unfair competition, and subsequently voluntarily dismissed its patent count, the Federal Circuit treated plaintiff's voluntary dismissal of its patent count as an amendment of the original complaint, and ruled that "[a]pplying the well-pleaded complaint rule to the complaint then remaining, we determine that the present suit does not 'arise under' the patent laws for jurisdictional purposes." The Ninth Circuit agreed with this approach in Denbicare U.S.A., Inc. v. Toys R Us, Inc., 84 F.3d 1143 (9th Cir. 1996) (exercising jurisdiction over appeal of remaining claims after patent-related claim was voluntarily dismissed).

The FCBA has concluded that the legislative proposal need not specifically address cases where patent claims are resolved pre-appeal. Congress' goal to promote uniformity in patent law does not appear to be frustrated in this situation because in these cases the patent claims are not at issue on appeal. Because the Federal Circuit will generally have jurisdiction over appeals from cases having patent counts in the plaintiff's pleadings, there is nothing to "fix" legislatively concerning these cases.

3. Consolidated Cases

The FCBA has considered whether the proposed legislation should contain express provisions concerning consolidated cases. Consolidated suits present a wide variety of procedural contexts, depending on whether the suits are consolidated for trial or only pre-trial proceedings, the issues raised in the non-patent suits, the number and identity of the parties, the timing of the suits, and the terms of the district court's consolidation order. Because of the wide range of procedural postures presented by consolidated suits, the FCBA believes that appellate jurisdiction over these disputes is best left to case-by-case development. As noted above, district courts have powerful tools to structure cases in the interests of justice.

In cases consolidated for a merits determination, the Federal Circuit and the regional circuits have often ruled that non-patent and patent suits should all be appealed to the

Federal Circuit. For example, in Interpart Corp. v. Italia, 777 F.2d 678 (Fed. Cir. 1985), Interpart's 1980 non-patent suit against Vitaloni was consolidated with Vitaloni's 1982 patent suit against Interpart. After Vitaloni lost in both cases, Vitaloni appealed the non-patent claims to the Ninth Circuit and the "exceptional case" ruling from its patent claims to the Federal Circuit. Both courts of appeals agreed that the Federal Circuit should have jurisdiction over both suits. Id. at 680-81. The Federal Circuit followed this approach in In re Innotron Diagnostics, 800 F.2d 1077 (Fed. Cir. 1986).

In Nilssen v. Motorola, Inc., 255 F.3d 410 (7th Cir. 2001), Judge Easterbrook suggested that the proper approach to consolidated proceedings is for the district court to order them consolidated for appeal where appropriate. In Nilssen, after the district court severed the patent and non-patent cases, and the Federal Circuit declined jurisdiction over the appeal from the non-patent cases, the Seventh Circuit ordered the two fragments re-consolidated, and ordered that the "cases must be rejoined for all purposes, including any appeal from the final judgment."

In Tank Insulation Int'l, Inc. v. Insultherm, Inc., 104 F.3d 83 (5th Cir. 1997), the Fifth Circuit found jurisdiction over an appeal from the antitrust-related component of a previously consolidated suit involving patent and antitrust components. Had the components remained consolidated at the time of appeal, the Fifth Circuit stated it would not have had jurisdiction: "So long as the actions were consolidated, section 1295 unquestionably vested the Federal Circuit with exclusive jurisdiction of the entire action; however, when the consolidation order was vacated, the antitrust action returned to its original, independent status." Id. at 85.

As for cases consolidated only for pre-trial purposes, in FMC Corp. v. Glouster Eng'g Co., 830 F.2d 770 (7th Cir. 1987) (Posner, J.), the Seventh Circuit ruled that discovery-related disputes arising from the antitrust-related component of a consolidated action should be appealed to the regional circuit, not the Federal Circuit, because consolidation for pre-trial purposes should not direct the ultimate appeal in the antitrust suit to the Federal Circuit.

The FCBA concludes that because of the wide variety of procedural contexts presented in consolidated cases, questions of appellate jurisdiction over these disputes are best

addressed on a case-by-case basis. For cases consolidated for a merits determination, many courts have found that the best approach is to direct the entire action to the Federal Circuit for appeal. For consolidated cases only involving patent counterclaims, a legislative response directed to the counterclaim issue should be sufficient, without generally addressing consolidated suits.

III.

CONCLUSION

Holmes Group has been implemented to give state courts and regional federal circuit courts of appeal jurisdiction over patent claims. This conflicts sharply with the Congressional intent behind the creation of the Federal Circuit, not to mention a host of policy considerations.

We believe the most appropriate response to Holmes Group (as well as Green and Ross) is to amend 28 U.S.C. § 1338 to ensure that the district courts have original jurisdiction over all claims for relief arising under the patent laws. Because the Federal Circuit's jurisdiction is derivative of the district court's jurisdiction under Section 1338(a), this amendment will vest the Federal Circuit with appellate jurisdiction over all cases containing patent infringement claims. Furthermore, this amendment will ensure that there is exclusive federal jurisdiction over all patent infringement claims.